




Lesson Plan

Income – Business; Form 1040, Line 12

Time Required: 60 minutes

Introduction	Objectives	Topics
<p>This lesson is designed to teach tax preparers how to report business income, including self-employment income, for taxpayers who are eligible to file Schedule C-EZ and Schedule C with limits.</p> <p>Form 1040, line 12, is used to report income from a business or profession operated as a sole proprietor or independent contractor.</p>	<p>Determine:</p> <ul style="list-style-type: none">• How to report business income• When to complete Schedule C-EZ or C• What business expenses are within the scope of the VITA/TCE program• How to complete Schedule C-EZ or C• Identify "red flags" when preparing a Schedule C tax return with EIC• What records to maintain	 <p>Business income or loss information</p> <p>Reporting business income</p> <p>When to complete Schedule C or C-EZ</p> <p>Clarifying Taxpayers' Business Income and Expenses</p> <p>Business expenses</p> <p>Completing Schedule C-EZ</p> <p>Completing Schedule C</p> <p>Recordkeeping</p>

Key Terms

Actual Expense Method: One of two methods for calculating business automobile expenses. For the actual expense method, the taxpayer determines the business portion of expenses for fuel, auto maintenance, parking fees and tolls, and auto loan interest. (The other method is the standard mileage method.) The actual expense method is out of scope for the VITA/TCE program.

Business Expenses: Business expenses are amounts that are ordinary and necessary to carry on the business.

Business Income: Business income is income received from the sale of products or services. For example, fees received by a professional person are considered business income. Rents received by a person in the real estate business are business income. Payments received in the form of property or services must be included in income at their fair market value.

Cash Method of Accounting: Accounting method that reports income when constructively received (not earned) and expenses when paid (not incurred), as opposed to the accrual method.

Depreciation: An annual deduction that allows taxpayers to recover the cost of property used in a trade or business or held for the production of income. The amount of depreciation depends on the basis of the property, its recovery period, and the depreciation method. In-scope for Military certification only (rental property).

Earned Income: Any income received for work, such as wages or business income.

Employee: Under common-law rules, anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed.

Independent Contractor: People who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. The general rule is

that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. The earnings of a person who is working as an independent contractor are subject to self-employment tax.

Inventory: The items the taxpayer buys or makes for resale to others.

Regular Method: Most common method for computing self-employment tax. Under the regular method, the net self-employment income entered on Schedule SE is the sum of net self-employment earnings from the taxpayer's Schedules C, C-EZ, and F. (Taxpayers should consult a professional tax preparer or a military legal assistance officer if they use a different method or require Schedule F.)

Self-employment Income: Earned income from a trade, business, farming, or profession that is not paid by an employer. For example, seamstresses and lawn care workers who work for themselves (and not for someone else) are considered self-employed.

Sole Proprietor: (See independent contractor.)

Standard Mileage Method: One of two methods for calculating business automobile expenses. For the standard mileage method, the taxpayer multiplies the business miles by the mileage rate for that tax year. (The other method is the actual expense method).

Statutory employee: If workers are independent contractors, such workers may nevertheless be treated as employees by statute (a statutory employee) for certain employment tax purposes.

Qualified Medicaid waiver payments: Payments by a state, a political subdivision of a state, or a certified Medicaid provider under a Medicaid waiver program to an individual care provider for nonmedical support services provided under a plan of care to an individual (whether related or unrelated) living in the individual care provider's home.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxWise on reporting business and self-employment income.	TaxWise® Demo: From the Practice Lab, select : <ul style="list-style-type: none"> • TaxWise IRS training • TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu • Click the Income button, then select Part 1.
Provide details and engage the students	Discuss all tips and cautions in detail. Ask students to read and/or role-play examples. Review answers to each exercise; ask students how they arrived at their answers.	Internet: Link & Learn Taxes (L<) Income – Business; Form 1040, Line 12

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Review list of references.</p> <p>State the presentation time.</p> <p>Review Key Terms for the lesson.</p> <p>Review the Tax Topics found on www.irs.gov.</p> <p>Review what lines on Form 13614-C impact business income.</p> <p>Remind students that preparation of tax returns with Schedule C are in scope for VITA/TCE when the return meets the same criteria as a Schedule C-EZ return, as long as expenses are \$10,000 or less.</p> <p>Ask students to explain if they know the difference between an independent contractor and an employee (see Pub 15-A).</p>	<p>Visuals:</p> <p>Form 1040, Page 1 Income section</p> <p>Form 13614-C, Page 2, Part III</p> <p>Schedule C-EZ and Schedule C</p> <p>Schedule SE</p> <p>Pub 15</p> <p>Pub 15-A</p> <p>Internet:</p> <p>Tax Topics: Business Income</p> <p>Tax Topics: Small Business/Self-Employed</p> <p>Tax Topics: Independent Contractor vs. Employee</p>
Business income or loss information	<p>Review L&LT topic Business Income or Loss Information.</p> <p>Prompt students to share what they know about business income using the questions from the topic.</p> <p>Ask students what type of follow-up questions they should ask taxpayers to determine if the taxpayer or spouse had business income.</p> <p>Ask: What are sources of business income information? Answer: Form 1099-MISC (Nonemployee compensation) and Form W-2 (Statutory Employee), and taxpayer records.</p> <p>Point out that cash payments received by self-employed taxpayers must be included in their business income on Schedule C-EZ or Schedule C. This is true even if the income is not reported on Form 1099-MISC.</p>	<p>Visuals:</p> <p>Form 13614-C, Page 2, Part III</p> <p>Form 1099-MISC, box 7</p> <p>Form W-2, box 13</p> <p>Internet:</p> <p>L&LT Business Income, Business Income or Loss Information</p> <p>FAQs: Form 1099-MISC & Independent Contractors</p> <p>Bulletin: Notice 2014-7</p>

Caution students that some employers misclassify workers as independent contractors and report their earnings on Form 1099-MISC. Taxpayers who believe they have been misclassified should contact the IRS and ask for help.

Reporting business income	<p>Review L&LT topic Reporting Business Income.</p> <p>Ask: What does TaxWise do with the income and expenses entered into Schedule C-EZ? Answer: TaxWise calculates and applies the net profit to the correct line on Schedule SE and computes the self-employment tax. Amounts are then transferred to the correct lines of Form 1040.</p> <p>Present TaxWise training tutorial on Business Income up through entering Form 1099-MISC income into Schedule C-EZ.</p>	<p>Visuals: Schedule C-EZ</p> <p>Internet: L&LT Business Income, Reporting Business Income</p> <p>TaxWise Demo: From Form 1040 line 7, link to Form W-2 (F9 key). From Form 1040 line 12, link to Schedule C or C-EZ From Schedule C/C-EZ line 1, link to Form 1099-MISC and 'Scratch Pad'</p>
When to complete Schedule C or C-EZ	<p>Review L&LT topic When to Complete Schedule C or C-EZ.</p> <p>Ask: What are the conditions for taxpayer's use of Schedule C-EZ and Schedule C?</p> <p>Emphasize that before starting to prepare the return, the volunteer must determine if the business qualifies to be reported on Schedule C-EZ. This means estimating business income and expenses.</p> <p>Remind students self-employment taxes are computed on Schedule SE for net earnings of more than \$400.</p> <p>State that self-employment tax is automatically calculated in TaxWise.</p> <p>Inform students that Schedule SE is covered in the Other Taxes lesson.</p>	<p>Visuals: Schedule C-EZ, Part 1 Form 13614-C Form 1040, Schedule SE</p> <p>Internet: L&LT Business Income, Reporting Business Income Tax Topics, Self-Employment Tax</p>

Clarifying Taxpayers' Business Income and Expenses	<p>Review L&LT topic Clarifying Taxpayers' Business Income and Expenses.</p> <p>Ask: What are situations that raise a "red flag" for a volunteer preparing a tax return with Schedule C and EIC?</p> <p>Emphasize that a taxpayer must be prepared to provide receipts and other documentation to support their claimed business income and expenses.</p> <p>Ask students to read aloud the sample interview and discuss why the information Dana provides is inconsistent and incomplete.</p>	<p>Visuals:</p> <p>Form 1040, Schedule C</p> <p>Internet:</p> <p>L&LT Business Income, Clarifying Taxpayers' Business Income and Expenses</p>
Business expenses	<p>Review L&LT topic Business Expenses in Scope for VITA/TCE.</p> <p>Present continuation of previous TaxWise training tutorial on Schedule C/C-EZ.</p> <p>Direct students to Pub 4012:</p> <ul style="list-style-type: none"> • Travel Expenses chart • Deductible Transportation Expenses chart – to be used only if taxpayers' home is not their principal place of business <p>Emphasize that a self-employed taxpayer must report all ordinary and necessary expenses and claim all allowable deductions.</p> <p>State TaxWise calculates and displays the business income (or loss) on Form 1040, line 12.</p>	<p>Visuals:</p> <p>Schedule C Instructions, Examples of business expenses</p> <p>Pub 4012, Deductions tab, Travel Expenses chart</p> <p>Pub 4012, Deductions tab, Deductible Transportation Expenses chart</p> <p>Pub 4012, Deductions tab, Schedule C-EZ</p> <p>Internet:</p> <p>L&LT Business Income, Business Expenses in Scope for VITA/TCE</p> <p>TaxWise Demo:</p> <p>From Schedule C/C-EZ line 2, link to 'Scratch Pad' for entering expenses (F9).</p> <p>Schedule C-EZ, Part III, vehicle expenses</p> <p>Schedule C, Part IV, vehicle expenses</p>

Completing Schedule C-EZ	<p>Review L&LT topic Completing Schedule C-EZ.</p> <p>Schedule C-EZ Part I, General Information:</p> <ul style="list-style-type: none"> • Inform students that in TaxWise, they can find Principal Business Codes by bringing up the Help screen while in Schedule C-EZ Business Codes. <p>Part I:</p> <ul style="list-style-type: none"> • Remind students that Part I asks if a business made payments that would require filing of Form(s) 1099. <p>Part II:</p> <ul style="list-style-type: none"> • Remind students line 1 is the amount for gross receipts or sales. • State that TaxWise will total all the expenses and transfer the amount to line 2. <p>Part III:</p> <ul style="list-style-type: none"> • Ask: Can taxpayers claim expenses for car repairs in addition to the standard mileage rate? Answer: No, the standard mileage rate takes into account the wear and tear on vehicles used for business. <p>Point out that the standard mileage rate includes all vehicle expenses except parking or tolls.</p> <ul style="list-style-type: none"> • Go through the Topic Activity (Roger), and verify students understanding. 	<p>Visuals:</p> <p>Schedule C-EZ</p> <p>Pub 4012, Deductions tab, Schedule C-EZ Business Income</p> <p>Pub 463</p> <p>Internet:</p> <p>L&LT Business Income, Completing Schedule C-EZ</p> <p>TaxWise Demo:</p> <p>Link to TaxWise Help screen in Schedule C-EZ to find Principal Business Codes</p>
Completing Schedule C	<p>Review L&LT topic Completing Schedule C.</p> <p>Remind students the same business expenses are deductible on both Schedule C and C-EZ.</p> <p>Remind students that if the taxpayer's Form W-2 has the "Statutory employee" box checked, follow TaxWise guidance for the applicable line of Schedule C or C-EZ.</p> <p>Review what is out of scope for Schedule C.</p>	<p>Visuals:</p> <p>Pub 4012, Deductions tab, Schedule C</p> <p>Form 1040, Schedule C</p> <p>Schedule C Instructions, Principal Business Codes</p> <p>Pub 463</p>

		<p>Internet:</p> <p>L&LT Business Income, Completing Schedule C</p> <p>L&LT Business Income, Out of Scope</p> <p>TaxWise Demo:</p> <p>Show both pages of TaxWise Schedule C.</p>
Recordkeeping	<p>Review L&LT topic Recordkeeping.</p> <p>Direct students to Pub 4012, Recordkeeping table.</p> <p>Discuss the tools a taxpayer can use to reconstruct records for verifying income and expenses.</p> <p>Emphasize that a volunteer can assist with simple record reconstruction, but extensive reconstruction must be left to the taxpayer or a paid tax preparer.</p> <p>Read aloud the sample interview for taxpayer Dana.</p>	<p>Visuals:</p> <p>Pub 4012, Deductions tab, Recordkeeping table</p> <p>Pub 583</p> <p>Internet:</p> <p>L&LT Business Income, Recordkeeping</p>
Practice	<p>Select practice exercises for Schedule C-EZ and Schedule C.</p> <p>Ask students to select the problem based on their certification course of study.</p> <p>Verify they have correctly entered the income.</p>	<p>Visuals:</p> <p>Publication 4491-W Advanced Comprehensive Problem and Practice Exercises</p>
Summary	<p>Review the lesson summary with the class.</p>	<p>Internet:</p> <p>L&LT Business Income, Summary</p> <p>L&LT Business Income: Click Assessments icon to review Summary and Exercises</p>

References	
L<	Income – Business; Form 1040, Line 12
Form 1040	Form 1040 , Line 12
Form 13614-C	Form 13614-C , Intake/Interview & Quality Review Sheet, Page 2, Part III
Form 1099-MISC	Form 1099-MISC , Box 7, Nonemployee Compensation
Form W-2	Form W-2 , Box 13, Statutory Employee box
Schedule C-EZ	Net Profit From Business
Schedule C	Profit or Loss from Business
Schedule C Instructions	Instructions for Schedule C
Schedule SE	Self-Employment Income
Pub 4012	Pub 4012, Volunteer Resource Guide, Deductions tab Travel Expenses chart Deductible Transportation Expenses chart Recordkeeping table How/Where to Enter Income Form W-2 Instructions Schedule C-EZ Business Income Schedule C- Business Income, Page 1 Schedule C- Business Income, Page 2
Pub 15-A	Pub 15-A, Employer's Supplemental Tax Guide
Pub 17	Pub 17 , Part Two, Income
Pub 463	Pub 463, Travel, Entertainment, Gift, and Car Expenses
Pub 583	Pub 583, Starting a Business and Keeping Records
Pub 4491-W	Pub 4491-W – Advanced - International Practice exercise for Schedule C-EZ, and Form 1040 line 12
Optional	
Form 1099-K	Form 1099-K , Payment Card and Third Party Network Transactions
Pub 535	Pub 535, Business Expenses
Notice 2014-7	Notice 2014-7 , Qualified Medicaid Waivers Notice (Foster Care Payment)

Recommended Classroom Activities



Tax Facts



Assessments



Media: Videos
& Audio



TaxWise
Tutorial



Job Aids



Practice
Lab



Tax Facts: Link & Learn Taxes Income – Business; Form 1040, Line 12

Click Tax Facts as a new way to access Link & Learn Taxes Business Income.



Assessments – Summary and Exercises

Click Assessments as a new way to access the Summary and Exercises in Link & Learn Taxes Business Income.



Media: Video & Audio for Lesson

There is no media associated with this lesson.



TaxWise Tips and Resources for Lesson

TaxWise screens	Main Information Screen, Income line 12
	Schedule C-EZ Business Income
	Schedule C Business Income, pages 1 and 2
Practice Lab Tutorial	From the Practice Lab, select:
	1. TaxWise IRS training
	2. TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu
TaxWise Solution Center	3. Click the Income button, then select Part 1
	https://support.taxwise.com/



Job Aids

ITA and FAQs for Lesson

Tax Map	FAQs for Small Business/Self-Employed/Other Business – Form 1099-MISC & Independent Contractors http://taxmap.ntis.gov/taxmap/ts0/smallbusiness_o_55aea18d.htm
FAQs	Small Business/Self-Employed/Other Business http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Small-Business,-Self-Employed,-Other-Business Form 1099-MISC & Independent Contractors http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Small-Business,-Self-Employed,-Other-Business/Form-1099-MISC-&-Independent-Contractors
Tax Trails	Self-Employment Income – Sole Proprietorship http://www.irs.gov/Individuals/Tax-Trails---Self-Employment-Income-2 Self-Employment Income – Independent Contractors http://www.irs.gov/Individuals/Tax-Trails---Self-Employment-Income-4
Tax Topics	Business Income http://www.irs.gov/taxtopics/tc407.html Small Business/Self-Employed http://www.irs.gov/taxtopics/tc103.html Independent Contractor vs. Employee http://www.irs.gov/taxtopics/tc762.html Self-Employment Tax http://www.irs.gov/taxtopics/tc554.html
References	References for L< Income – Business; Form 1040, Line 12 http://apps.irs.gov/app/vita/content/09/references.jsp



Practice Lab

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